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MEMORANDUM
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2012 MAY 16 P 4:09

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

Date: May 16, 2012

RE: STAFF REPORT FOR THE APPLICATIONS OF PARK VALLEY WATER COMPANY AND FOOLS HOLLOW FOR AN OPINION AND ORDER (I) AUTHORIZING SALE AND TRANSFER OF WATER SYSTEM ASSETS AND (II) CANCELLING CERTIFICATES OF CONVENIENCE AND NECESSITY (DOCKET NOS: W-01653A-12-0043 AND W-02042A-12-0062)

Attached is the Staff Report for the sale and transfer of Park Valley Water Company and Fools Hollow Water Company to the City of Show Low and cancellation of its Certificates of Convenience and Necessity. Staff recommends approval of these applications with conditions.

SMO:VW:kdh

Originator: Vicki Wallace

Arizona Corporation Commission

DOCKETED

MAY 16 2012

DOCKETED BY	<i>ZM</i>
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Service List For: Park Valley Water Company and Fools Hollow Water Company
Docket Nos.: W-01653A-12-0043 AND W-02042A-12-0062

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

PARK VALLEY WATER COMPANY
DOCKET NO. W-01653A-12-0043

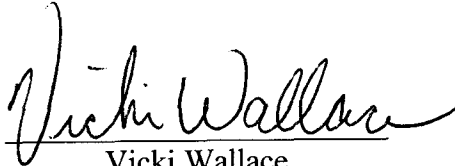
FOOLS HOLLOW WATER COMPANY
DOCKET NO. W-02042-12-0062

SALE AND TRANSFER OF ASSETS OF PARK VALLEY WATER COMPANY AND
FOOLS HOLLOW WATER COMPANY TO
THE CITY OF SHOW LOW AND CANCELLATION OF CERTIFICATES OF
CONVENIENCE AND NECESSITY

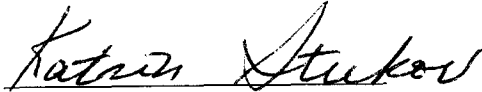
MAY 16, 2012

STAFF ACKNOWLEDGMENT

The Staff Report for Park Valley Water Company, Docket No. W-01653A-12-0043, and Fools Hollow Water Company, Docket No. W-02042A-12-0062, was prepared by the Staff members shown below.



Vicki Wallace
Executive Consultant



Katrin Stukov
Utilities Engineer



Darron Carlson
Public Utilities Analyst Manager

**EXECUTIVE SUMMARY
PARK VALLEY WATER COMPANY AND
FOOLS HOLLOW WATER COMPANY
DOCKET NOS. W-01653A-12-0043 AND W-02042A-12-0062**

On February 6, 2012, and February 23, 2012, respectively, Park Valley Water Company ("Park Valley", "PVWC", or "Company") and Fools Hollow Water Company ("Fools Hollow", "FHWC", or "Company") (collectively "Companies") filed applications with the Arizona Corporation Commission ("Commission" or "ACC") for approval of the sale and transfer of water system assets to the City of Show Low ("City" "Show Low") and for the cancellation of Certificates of Convenience and Necessity ("CC&N") to provide water service. The dockets were consolidated pursuant to a Procedural Order issued March 6, 2012.

Park Valley and Fools Hollow (1) have the same ownership; (2) are physically adjacent to one another and interconnected with one another; and (3) are operated as one water system pursuant to an October 15, 1986, Approval to Operate issued by the Arizona Department of Health Services. Thus, the Companies executed and finalized one Asset Purchase and Sale Agreement ("Purchase Agreement" or "Agreement") with the City of Show Low on December 6, 2011.

The City of Show Low has extensive experience owning and operating a municipal water utility and has, as indicated above, executed a Purchase Agreement with PVWC and FHWC for the acquisition. No adverse impacts to customers are anticipated, and in fact, the quality and quantity of water available to customers may improve.

The City intends to honor all PVWC's and FHWC's obligations under mainline extension agreements and to assume all existing customer accounts, including customer deposit obligations.

Staff recommends approval of the sale and transfer of the assets of PVWC and FHWC to Show Low and that the Commission cancel the CC&Ns of PVWC and FHWC with the following conditions:

1. That Park Valley and Fools Hollow file documentation of finalization of the sale of the Companies to the City with the Commission in this docket within 30 days of such finalization.
2. That the City honor all liabilities of Park Valley and Fools Hollow relating to customer deposits, service line and meter installations, and mainline extension agreements.

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INTRODUCTION

On February 6, 2012, Park Valley Water Company ("Park Valley", "PVWC" or "Company") and Fools Hollow Water Company ("Fools Hollow" "FHWC", or "Company") (collectively "Companies") filed a joint application with the Arizona Corporation Commission ("Commission" or "ACC") for approval of the sale and transfer of water system assets to the City of Show Low ("City" or "Show Low"), an Arizona municipality, and for the cancellation of Certificates of Convenience and Necessity ("CC&N") to provide water service. Park Valley and Fools Hollow were subsequently instructed by the Commission to file separate applications. The initial filing was utilized by PVWC as its application, Docket No. W-01653A-12-0043, and a separate application was filed February 23, 2012 as the FHWC application, Docket No. W-02042A-12-0062. The dockets were consolidated pursuant to a Procedural Order issued March 6, 2012.

The ACC Utilities Division ("Staff") sent an Insufficiency Letter dated March 6, 2012, which was docketed March 8, 2012, indicating that the Park Valley and Fools Hollows' applications did not meet the sufficiency requirements of Arizona Administrative Code ("A.A.C."). On March 22, 2012, PVWC and FHWC filed responses to Staff's Insufficiency Letter and provided additional documentation to support the applications. On April 4, 2012, Staff filed a Sufficiency Letter indicating that the applications had met the sufficiency requirements of the A.A.C.

On April 6, 2012, the Administrative Law Judge issued a procedural schedule setting a hearing for May 15, 2011.

BACKGROUND

Park Valley and Fools Hollow are Arizona corporations in good standing with the Commission's Corporation Division and are certificated to provide water utility services pursuant to the Commission's Decision No. 31739 issued August 12, 1959, for PVWC and Decision No. 39206 issued October 13, 1967, for FHWC. Current rates were set by Decision No. 61099 issued August 26, 1998, for Park Valley and Decision No. 61108 issued August 28, 1998, for Fools Hollow. PVWC and FHWC provide water service to approximately 635 and 335 residential customers, respectively, within an area adjacent to one another and located within Show Low's municipal water service area. PVWC and FHWC currently have two (2) employees overseeing the Company's water system operations. Staff's legal description and maps of the service area are attached as Exhibit 1.

According to the applications, Show Low is a municipal water system that provides water service to approximately 6,100 residential and commercial customers and has a staff of fourteen (14) full-time employees overseeing its water system. Park Valley's and Fools Hollows' systems are in a geographical area in which Show Low desires to establish and expand its presence as a regional water provider.

Park Valley and Fools Hollow (1) have the same ownership; (2) are physically adjacent to one another and interconnected with one another; and (3) are operated as one water system pursuant to an October 15, 1986, Approval to Operate issued by the Arizona Department of Health Services. As such, the Companies reached an agreement with Show Low on the substantive provisions of an Asset Purchase and Sale Agreement (“Agreement” or “Purchase Agreement”) in November of 2011. The Agreement was executed by the President of PVWC and FHWC on December 2, 2011, and by the Mayor of Show Low on December 6, 2011, following unanimous approval of the Agreement by the Show Low City Council on December 6, 2011.

The application indicates that Show Low has access to means for financing of the water system and for infrastructure additions and capital improvements which are not available to Park Valley and Fools Hollow, and Show Low would be in a better position to accommodate future growth in PVWC’s and FHWC’s certificated water service areas. Also, Park Valley and Fools Hollow are owned by a Trust with 12 beneficiaries who are now desirous of relieving themselves of the responsibilities of owning and operating a water utility.

Park Valley and Fools Hollow indicate the sale/transfer to Show Low and the cancellation of the CC&N would be consistent with the public interest. PVWC and FHWC feel that such a transaction would not have an adverse impact on the level and quality of service that the Company currently provides to its customers.

THE ASSET PURCHASE AGREEMENT

As indicated above, a Purchase Agreement between Park Valley, Fools Hollow, and Show Low was executed on December 6, 2011. The main provisions of the purchase agreement are as follows:

1. The City is to provide a continuous, adequate and reliable municipal water supply to all individuals and entities served by Park Valley and Fools Hollow.
2. The total price for the purchase and sale of Pineview’s assets is \$1,536,000. The Agreement requires PVWC and FHWC to deposit \$10,000 as Earnest Money with the Escrow Agent and to pay the final portion of \$1,526,000 on or before closing.
3. The closing of the sale will be conditioned upon, among other things, Park Valley and Fools Hollow obtaining regulatory approval from the ACC. If required regulatory approvals have not been obtained by June 30, 2012, or the parties do not extend the date of closing, the Earnest Money will be returned to PVWC and FHWC, and provisions of the Agreement will terminate.
4. The closing of the sale will occur no later than 60 business days after obtaining all regulatory approvals, but in no event later than June 30, 2012.

5. Any Aid of Construction Agreements held by Park Valley and Fools Hollow, refunds of which are not due as of closing, will be transferred to Show Low together with the associated future refund responsibility.
6. Park Valley and Fools Hollow will be responsible for making all customer deposit refunds which become due prior to Closing. Show Low is responsible for making all customer deposit refunds which become due subsequent to Closing.
7. The City will obtain a loan from the Water Infrastructure Financing Authority of Arizona ("WIFA") and utilize the funds to finance the purchase of the assets and anticipated improvements.

THE PARK VALLEY AND FOOLS HOLLOW WATER SYSTEM

As indicated above, the Park Valley and Fools Hollow water systems are interconnected and operate as one water system. Engineering details are contained in Exhibit 2 of this Report.

CITY OF SHOW LOW'S ORGANIZATION AND OPERATION

Show Low currently owns and operates a municipal water utility system, which provides water service to approximately 5,500 residential and 600 commercial customers. The City has operated as a water provider since shortly after incorporation in 1953 and currently employs 14 full time employees to oversee Show Lows water system operations.

Both of the Companies' systems are wholly located within the City of Show Low and nearly all of the customers are serviced by the City's wastewater services. Consolidation of these systems into the City system will eliminate customer confusion that is caused by having multiple utility providers and provide economies of scale. Also, customers would only receive one bill for utility services with multiple payment options.

RATES AND CUSTOMER SERVICE

If the transfer/sale is approved, it is indicated that Park Valley and Fools Hollow customers will be charged the City's current rates that were adopted by its Mayor and Council on May 17, 2011. To summarize the effect of the current Show Low rates on the Companies' customers, the application states that any current Park Valley or Fools Hollow customer utilizing 4,000 gallons or more per month will see a slight reduction in their monthly water rates. Given the fact that the average customer within each system utilizes 4,750 gallons of water per month, that customer will see his/her water bill remain virtually unchanged.

It is Staff's understanding that upon ACC approval, Show Low will commence its ownership and operation of Park Valley's and Fools Hollow's water systems in as seamless a manner as possible, with the objective of ensuring continuity and quality of water service to all of their respective customers. In that regard, Show Low intends to draw upon its positive

customer transition and experience acquired as a result of the acquisition of the Pineview Water Company approved by the ACC in Decision No. 72288 (May 4, 2011). Prior to the actual transfer, it is anticipated that Show Low will engage in an outreach program with all of the Companies' respective customers for the purpose of introducing itself to such customers.

Additionally, the City offers customers internet access to water bills, and internet payment (including auto payment) of water bills. The City's hours are also longer and thus more convenient for customers.

Finally, pursuant to the Purchase Agreement, Show Low will assume full responsibility for any obligations of Park Valley and Fools Hollow for water meter deposits or main extension agreement refunds which become due subsequent to closing of the water system(s) asset(s) transfer transaction.

A Procedural Order issued April 6, 2012, directed Park Valley and Fools Hollow to file certification of mailing and publication of the sale and transfer by May 21, 2012, per the Procedural Order issued April 6, 2012.

COMPLIANCE

Arizona Department of Environmental Quality ("ADEQ")

Park Valley-Fools Hollow Water System

In an ADEQ compliance status report dated January 20, 2012, ADEQ reported that the Park Valley-Fools Hollow Water System, Public Water System No. 09-011, has no major deficiencies and is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4. The Water System is also in compliance with ADEQ requirements.

City's Water System

In an ADEQ compliance status report dated January 4, 2012, ADEQ reported that the City's Water System, Public Water System No. 09-026, has no major deficiencies and is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

Arizona Department of Water Resources ("ADWR")

Park Valley-Fools Hollow Water System

The Companies and the City are not located in an ADWR Active Management Area. According to ADWR compliance status reports dated December 27, 2011, for the Companies

and February 2, 2012, for the City, both entities are in compliance with departmental requirements governing water providers and/or community water systems.

ARIZONA CORPORATION COMMISSION

As of the date of this Staff Report, the Utilities Division Compliance Section has indicated that the Companies have no delinquent ACC compliance items.

CONCLUSIONS AND RECOMMENDATIONS

The City of Show Low has extensive experience owning and operating a municipal water utility and has executed a Purchase Agreement with Park Valley and Fools Hollow for the acquisition. No adverse impacts to customers are anticipated, and in fact, the quality and quantity of water available to customers may increase as explained above.


The City intends to honor all Park Valley's and Fools Hollow's obligations under mainline extension agreements and to assume all existing customer accounts, including customer deposit obligations.


Staff recommends approval of the sale and transfer of the assets of Park Valley and Fools Hollow to Show Low and that the Commission cancel the CC&Ns of Park Valley Water Company and Fools Hollow Water Company with the following conditions:

1. That Park Valley and Fools Hollow file documentation of finalization of the sale of the Companies to the City with the Commission in this docket within 30 days of such finalization.
2. That the City honor all liabilities of Park Valley and Fools Hollow relating to customer deposits, service line and meter installations, and mainline extension agreements.

MEMORANDUM

TO: Vicki Wallace
Executive Consultant III
Utilities Division

FROM: Lori H. Miller 
Programs & Projects Specialist II
Utilities Division

THRU: Del Smith 
Engineering Supervisor
Utilities Division

DATE: March 26, 2012

RE: **PARK VALLEY WATER COMPANY – DOCKET NO. W-01653A-12-0043**
FOOLS HOLLOW WATER COMPANY – DOCKET NO. W-02042A-12-0062

Park Valley and Fools Hollow have filed separate applications to cancel their CC#Ns. On March 6, 2012, a Procedural Order was issued to consolidate these applications. Service will be provided by the City of Show Low.

Attached is a copy of the map for your files.

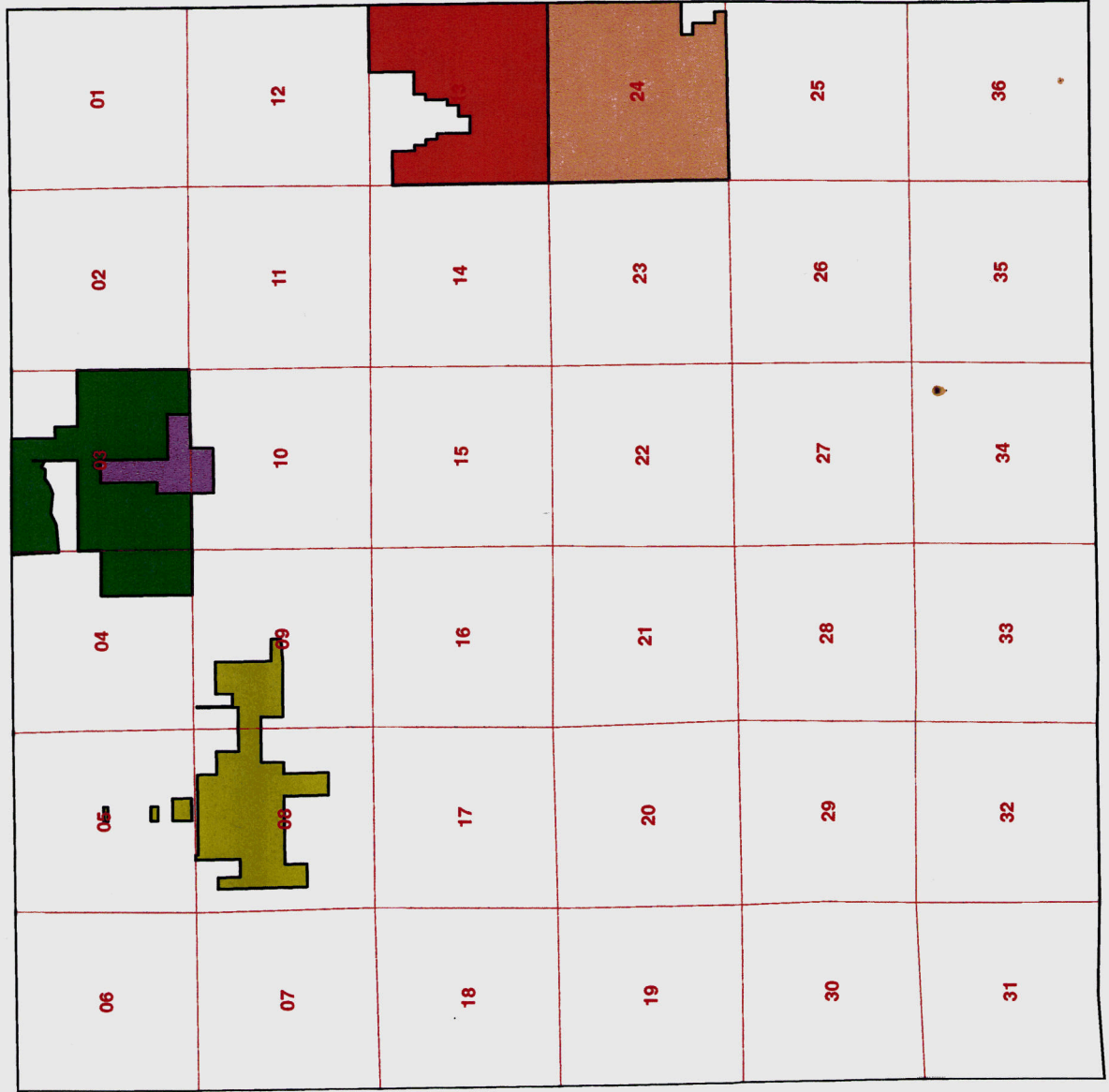
/lhm

Attachment

cc: Mr. Lawrence V. Robertson, Jr.
Ms. Deb Person (Hand Carried)
Mr. Katrin Stukov
File

NAVAJO COUNTY

RANGE 21 East



TOWNSHIP 10 North

- W-2042 (1)
Fools Hollow Water Company
 - W-3875 (4)
Mountain Glen Water Service, Inc.
 - W-3511 (3)
Navajo Water Company, Inc.
 - W-1653 (1)
Park Valley Water Company
 - W-2470 (1)
White Mountain Water Company
- Park Valley Water Company
Fools Hollow Water Company
Docket No. W-01653A-12-0043
Docket No. W-02042A-12-0062
Application to Cancel CC&N to
City of Show Low

MEMORANDUM

TO: Vicki Wallace
Executive Consultant
Utilities Division

FROM: Katrin Stukov *KS*
Utilities Engineer
Utilities Division

DATE: March 27, 2012

RE: Park Valley Water Company and Fools Hollow Water Company
Docket No. 12-0043 (Sale of Assets and Cancellation of CC&N)

Introduction

Park Valley Water Company ("Park Valley" or "Company") and Fools Hollow Water Company ("Fools Hollow" or "Company") (collectively the "Companies") filed applications¹ for approval of the sale and transfer of Park Valley's and Fools Hollow's respective water system assets to the City of Show Low ("City" or "Show Low") and cancelling the associated Certificates of Convenience and Necessity ("CC&N"). Both Companies are located in Show Low, Navajo County. The combined CC&N areas of Park Valley and Fools Hollow cover approximately 1,134 acres (1.8 square-miles). The Companies CC&N areas are adjacent to one another and adjacent to and surrounded by the City's municipal water service area.

Existing Water Systems

Operation

The Park Valley and the Fools Hollow water systems are interconnected and operate as one - Park Valley-Fools Hollow water system².

Based on the Park Valley's Plant Description³, the Company's water system consists of three wells (totaling to 490 gallons per minute ("GPM")), a 300,000 gallons storage tank (shared with Fools Hollow), a 5,000 gallons pressure tank, 3 booster pumps, 49 fire hydrants, approximately 78,500 feet of water main and over 670 customer meters.

¹ Applications were consolidated via Procedural Order issued March 6, 2012.

² According to the Arizona Department of Environmental Quality records, the two systems merged on September 26, 1986.

³ Per the Company's response dated March 22, 2012

Based on the Fools Hollow's Plant Description⁴, the Company's water system consists of one 150 GPM well, a 300,000 gallons storage tank (shared with Park Valley), 13 fire hydrants, approximately 24,000 feet of water main and over 360 customer meters.

Capacity

Based on the water use data provided by Companies⁵, Staff concludes that the interconnected Park Valley-Fools Hollow water system's total well production capacity of 640 GPM and a storage tank capacity of 300,000 gallons are adequate to serve its existing customers.

According to Companies response dated March 22, 2012, it is the City's intent to interconnect its water system with the Companies' system which would allow for redundancy of the water supply in the event of emergencies. In addition, the City anticipates various system upgrades and improvements (such as, interconnections, SCADA and well improvements) to become an integrated system.

Arizona Department of Environmental Quality ("ADEQ") Compliance

Park Valley-Fools Hollow Water System

In an ADEQ compliance status report, dated January 20, 2012, ADEQ reported that the Park Valley-Fools Hollow water system, Public Water System No. 09-011, has no major deficiencies and is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4, and the water system is in compliance with ADEQ requirements.

City's Water System

In an ADEQ compliance status report, dated January 4, 2012, ADEQ reported the that City's water system, Public Water System No. 09-026, has no major deficiencies and is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4, and the water system is in compliance with ADEQ requirements.

Arizona Department of Water Resources ("ADWR") Compliance

Park Valley-Fools Hollow System

Companies are not located in any ADWR Active Management Area. According to an ADWR compliance status report, dated December 27, 2011, ADWR reported that the Park Valley-Fools Hollow water system is currently in compliance with departmental requirements governing water providers and/or community water systems.

⁴ Per the Company's response dated March 22, 2012

⁵ Per Companies response dated March 22, 2012

City's System

The City is not located in any ADWR Active Management Area. According to an ADWR compliance status report, dated February 2, 2012, ADWR reported that the City's water system is currently in compliance with departmental requirements governing water providers and/or community water systems.

Arizona Corporation Commission ("ACC") Compliance

On February 16, 2012, the Utilities Division Compliance Section indicated that Companies have no delinquent ACC compliance items.

Conclusions

Staff concludes that the proposed sale of assets and CC&N cancellation will not have an adverse effect on the Company's customers and their water service.

Companies are in compliance with ADEQ, ACC and ADWR regulations.

The City is in compliance with ADEQ and ADWR regulations.